

LEBANON THIS WEEK

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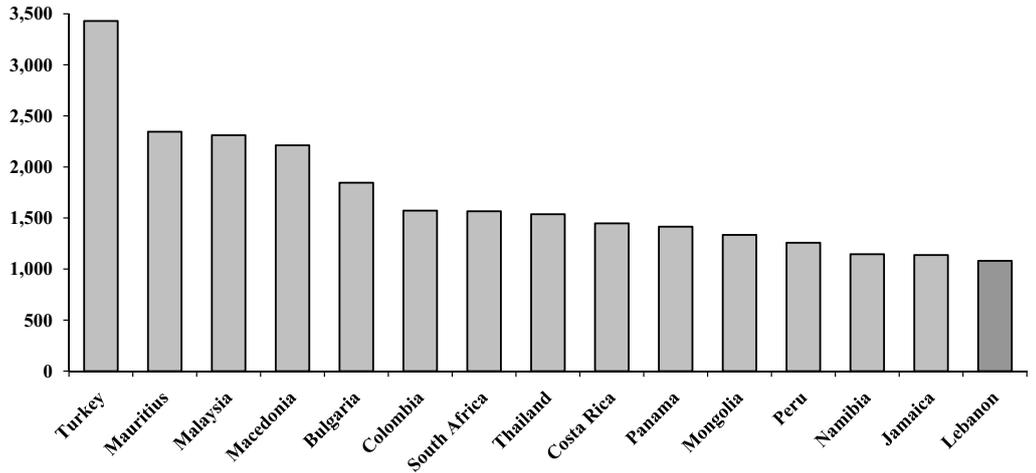
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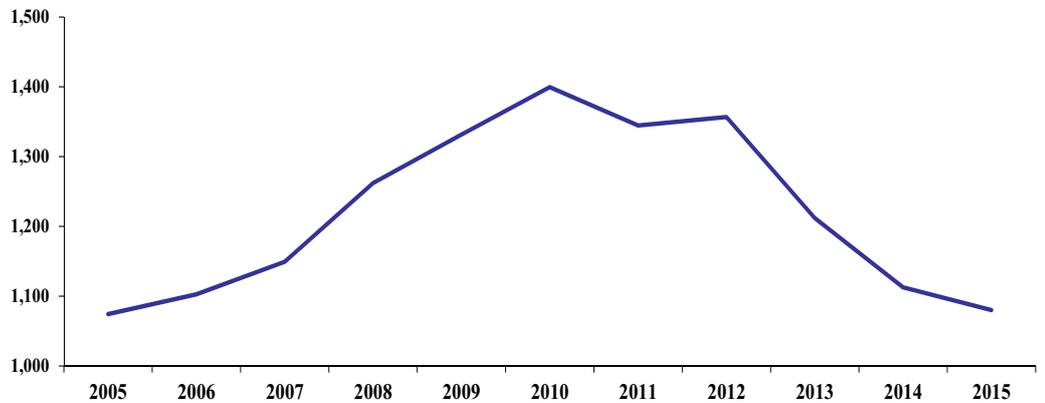
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Charts of the Week

Penetration Rates of Deposit Accounts in Selected Upper Middle-Income Countries at end-2015*
(Number of deposit accounts at commercial banks per 1000 adults)



Penetration Rates of Deposit Accounts in Lebanon
(Number of deposit accounts at commercial banks per 1,000 adults)



*Top 15 upper middle-income countries with a GDP of \$10bn or more
Source: International Monetary Fund, Byblos Bank

Quote to Note

"Lebanon's public finances are constrained by weak economic performance, lack of reforms and the burden of high debt payments."

Fitch Ratings, on the need to implement structural reforms to support economic growth and reduce the government's borrowing requirements

Number of the Week

90%: Percentage of Lebanese who believe that corruption is widespread throughout the government, according to an opinion poll issued in September 2016 by global polling firm Gallup

Lebanon in the News

\$m (unless otherwise mentioned)	2015	Aug 2015	May 2016	Jun 2016	Jul 2016	Aug 2016	% Change*
Exports	2,952	219	237	280	247	340	55.25
Imports	18,069	1,479	1,629	1,533	1,447	1,951	31.91
Trade Balance	(15,117)	(1,260)	(1,392)	(1,253)	(1,200)	(1,611)	27.86
Balance of Payments	(3,354)	(332)	(862)	(13)	352	1,788	-
Checks Cleared in LBP	18,714	1,597	1,591	1,577	1,490	1,616	1.16
Checks Cleared in FC	50,845	4,294	4,018	4,076	3,748	4,205	(2.07)
Total Checks Cleared	69,559	5,891	5,609	5,653	5,238	5,821	(1.20)
Budget Deficit/Surplus	(3,952)	(131.05)	(40.18)	(263.20)	(49.46)	(542.16)	313.71
Primary Balance	724.40	119.82	542.95	103.48	172.32	(262.41)	-
Airport Passengers***	7,241,463	893,708	618,581	572,461	892,417	917,286	2.64

\$bn (unless otherwise mentioned)	2015	Aug 2015	May 2016	Jun 2016	Jul 2016	Aug 2016	% Change*
BdL Gross FX Reserves	30.64	32.77	32.03	33.20	32.70	35.67	8.86
<i>In months of Imports</i>	20.35	22.15	19.66	21.65	22.60	18.28	(17.48)
Public Debt	70.31	68.89	71.49	72.90	73.39	74.05	7.48
Bank Assets	185.99	181.62	188.63	190.36	190.93	195.77	7.79
Bank Deposits (Private Sector)	151.59	149.63	153.89	154.66	155.07	157.09	4.99
Bank Loans to Private Sector	54.22	52.41	55.52	55.88	56.07	56.38	7.57
Money Supply M2	52.15	51.08	52.98	53.25	53.31	54.00	5.71
Money Supply M3	123.62	121.52	125.65	126.38	126.63	128.15	5.46
LBP Lending Rate (%)****	7.45	6.89	8.53	8.31	8.32	8.29	140bps
LBP Deposit Rate (%)	5.56	5.61	5.58	5.56	5.57	5.56	(5bps)
USD Lending Rate (%)	7.06	7.12	7.29	7.20	7.25	7.28	16bps
USD Deposit Rate (%)	3.17	3.19	3.26	3.31	3.30	3.39	20bps
Consumer Price Index**	(3.75)	(4.60)	(2.45)	(0.98)	(0.48)	(0.79)	381bps

* Year-on-Year ** Year-on-Year percentage change ***includes arrivals, departures, transit

**** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

Note: bps i.e. basis points

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Byblos Common	1.67	(1.18)	3,425,422	7.88%
BLOM Listed	10.36	0.58	471,454	18.59%
BLOM GDR	11.10	1.83	102,113	6.85%
Solidere "A"	11.01	(1.34)	96,462	9.19%
Audi GDR	6.75	(1.32)	63,480	6.76%
Solidere "B"	11.14	0.36	31,622	6.04%
Audi Listed	6.76	0.90	3,525	22.56%
Byblos Pref. 09	104.50	3.26	3,463	1.74%
HOLCIM	13.07	(1.36)	1,182	2.13%
Byblos Pref. 08	102.00	0.00	-	1.70%

Source: Beirut Stock Exchange (BSE); *Week-on-week

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	101.00	5.17
Nov 2018	5.15	98.25	6.13
May 2019	6.00	99.38	6.28
Mar 2020	6.38	99.13	6.68
Apr 2021	8.25	105.13	6.86
Oct 2022	6.10	95.38	7.08
Jun 2025	6.25	92.75	7.42
Nov 2026	6.60	93.50	7.54
Feb 2030	6.65	91.88	7.64
Nov 2035	7.05	93.00	7.76

Source: Byblos Bank Capital Markets

	Dec 5-9	Nov 28- Dec 2	% Change	October 2016	October 2015	% Change
Total Shares Traded	4,207,083	10,568,377	(60.2)	6,376,852	5,993,797	6.4
Total Value Traded	\$14,919,203	\$1,062,939	1,303.6	\$48,997,196	\$57,995,042	(15.5)
Market Capitalization	\$11.98bn	\$11.96bn	0.20	\$11.95bn	\$11.19bn	6.8

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 63rd globally, 11th in MENA region on entrepreneurial ecosystem

The Global Entrepreneurship Development Institute (GEDI), a Washington DC-based non-profit research organization, ranked Lebanon in 63rd place among 137 countries worldwide and in 11th place among 17 countries in the Middle East & North Africa region (MENA) on its Global Entrepreneurship Index (GEI) for 2017. Lebanon also came in 14th place among 40 upper middle-income countries (UMICs) included in the survey.

The GEI measures the quality and dynamics of a country's entrepreneurship ecosystem at the micro and macro levels. It assesses the efficiency of ecosystems for start-ups and attempts to highlight the bottlenecks that erode the competitive advantages of new firms. The GEI is a composite of 14 pillars grouped in three sub-indices that are the Entrepreneurial Attitudes Sub-Index, the Entrepreneurial Abilities Sub-Index and the Entrepreneurial Aspirations Sub-Index. A country's score is the simple average of the three sub-indices, with a higher score reflecting a better ecosystem for entrepreneurship.

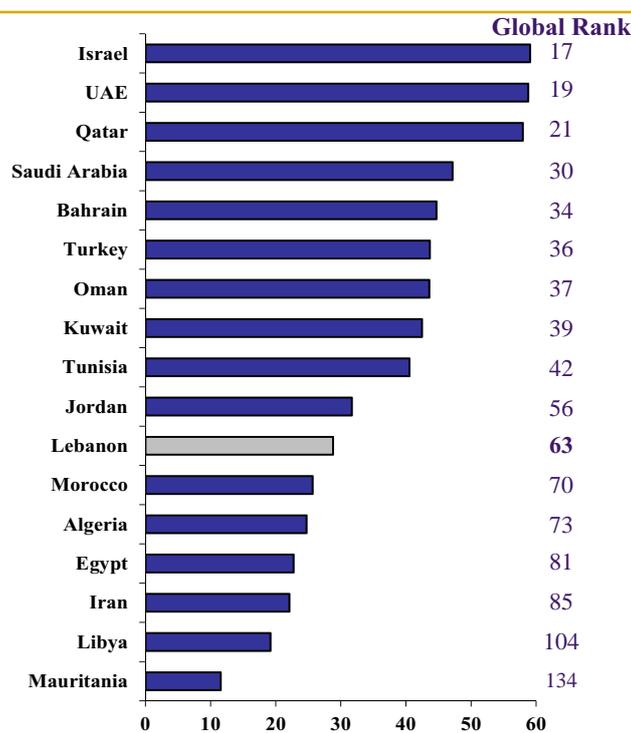
Globally, Lebanon's entrepreneurial ecosystem is better than the ecosystem of Macedonia, Thailand and Ukraine, and is less developed than that of Croatia, Namibia and Kazakhstan among economies with a GDP of \$10bn or more. Also, Lebanon has a better entrepreneurial ecosystem than Macedonia, Thailand and Peru and a less developed one than Costa Rica, Namibia and Kazakhstan among UMICs. Lebanon received a score of 28.8 points, higher than the UMICs' average score of 25.8 points but lower than the global average score of 33.1 points and the MENA average score of 36.7 points. Also, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 49.1 points and higher than that of non-GCC Arab countries of 25.6 points. The United States has the best entrepreneurial ecosystem globally with a score of 83.4 points, while Chad has the worst environment for entrepreneurs with a score of 8.8 points.

Globally, Lebanon ranked ahead of Macedonia, Gabon and El Salvador, and came behind Senegal, Serbia and Brunei Darussalam on the Entrepreneurial Attitudes Sub-Index. This category identifies the attitudes of a country's population towards entrepreneurship, such as recognizing opportunities, accepting the risks associated with business start-ups, and having the skills to launch a business successfully. Lebanon ranked ahead of Macedonia and Gabon, and came behind Kazakhstan and Jamaica among UMICs; while it came ahead of only Morocco, Iran, Egypt, Mauritania and Libya among MENA countries.

Also, Lebanon ranked ahead of Armenia, China and Trinidad & Tobago, and came behind Georgia, Thailand and Namibia on the Entrepreneurial Abilities Sub-Index. This category reflects the characteristics of the entrepreneurs and their businesses, including motivation, education, as well as the number of businesses that are in technology sectors and the level of competition among them. Lebanon ranked ahead of China and Libya, and came behind Georgia and Thailand among UMICs; while it came ahead of only Libya, Iran, Jordan, Algeria, Morocco, Egypt and Mauritania among MENA countries.

Finally, Lebanon ranked ahead of Egypt, India and Brunei Darussalam, and came behind Cyprus, Ukraine and Morocco on the Entrepreneurial Aspirations Sub-Index. This category reflects the early-stage entrepreneur's effort to introduce new products or services, to develop new production processes, to penetrate foreign markets, to substantially increase his/her company's staff, and to finance the business with formal or informal venture capital. Lebanon ranked ahead of Namibia, Jordan and Macedonia, and came behind Romania, South Africa and Azerbaijan among UMICs; while it ranked ahead of Egypt, Jordan, Algeria, Iran, Libya and Mauritania regionally.

Global Entrepreneurship Index Scores & Rankings of MENA Countries for 2017



Source: GEDI, Byblos Research

Components of the 2017 Global Entrepreneurship Index for Lebanon

	Global Rank	UMICs Rank	MENA Rank	Lebanon Score	Global Average	UMICs Average	MENA Average
Entrepreneurial Attitudes	75	22	12	25.8	32.6	27.2	35.9
Entrepreneurial Abilities	64	14	10	27.9	33.3	25.2	34.9
Entrepreneurial Aspirations	55	8	11	32.8	33.2	25.2	39.4

Source: Global Entrepreneurship Development Institute, Byblos Research



Governor Salamé clarifies \$12bn swap operations

Central Bank Governor Riad Salamé indicated that several factors encouraged Banque du Liban (BdL) to conduct between May and August 2016 its financial swap operations with the Ministry of Finance and commercial banks. He attributed the BdL's decision to the prevailing institutional paralysis at the time, a balance of payments deficit that reached \$1.7bn in the first five months of 2016, a decrease in foreign currency reserves and a subdued growth of 0.9% in bank deposits in the first four months of the year. He pointed out that the BdL had to take an initiative to maintain the stability of the Lebanese economy and of the Lebanese pound without having to increase interest rates amid the subdued economic activity.

Governor Salamé said that the Ministry of Finance swapped \$2bn worth of Eurobonds with Lebanese pound-denominated Treasury bonds from the Central Bank's portfolio. He added that the BdL then sold to commercial banks in Lebanon the newly exchanged Eurobonds and other Eurobonds it held in its portfolio, and issued Certificates of Deposit (CDs) in US dollars that it sold to banks. He noted that the swaps aimed to increase the BdL's foreign currency reserves, as banks had to finance the purchase by sourcing funds from abroad. He estimated the amount of Eurobonds and CDs sold by the BdL to banks at more than \$12bn, which is equivalent to about 20% of the country's GDP. Further, he indicated that the BdL bought back the equivalent of \$12bn in Lebanese pound-denominated Treasury bills and CDs from the commercial banks' portfolios at a zero discount rate. He added that the interest on these bonds was split evenly between the banks and the BdL.

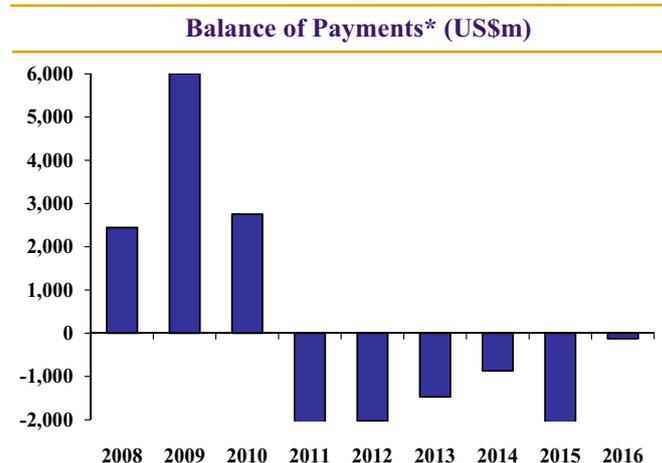
Governor Salamé considered that the BdL's recent operations have been successful and have generated revenues of \$5bn for each of the banking sector and the BdL. He emphasized that the BdL requested commercial banks to allocate \$2.4bn of the revenues they generated to increase their capital ratios and to build provisions in order to meet international accounting standard IFRS9 that will come into force in January 2018. He noted that this does not mean that banks have generated \$2.6bn in profits, as some banks created high yielding financial products in order to attract foreign currency deposits from abroad, which resulted in additional costs for them. He added that the assessment of the profits and costs for banks has to wait until the banks issue their end-of-year financial statements, but he estimated that the banks' profits would not be as high as rumored.

Further, Governor Salamé indicated that the swap operations helped shift the balance of payments deficit to a surplus of \$555m in the first nine months of 2016, increased foreign currency reserves to a record high of more than \$40bn at end-October 2016, and reduced the borrowing costs of the government. Also, he said that deposits at commercial banks grew by more than 2.5% during the period that followed the swaps. In addition, he pointed out that banks generated excess liquidity in Lebanese pounds, but the BdL provided them with the tools to place this liquidity. First, he noted that the banks have deposited at the BdL almost half of the liquidity generated in local currency. Second, he said that the banks would use the balance to extend loans to the private sector and the government. He estimated that banks would extend about LBP5,000bn to the private sector in 2017 and would make available a credit line of LBP3,000bn that the government can use to finance its operations at a 5% interest rate, which is two percentage points below market rates.

In parallel, Governor Salamé reiterated that all involved parties have gained from the swap operations without incurring costs. He said that the BdL has become the owner of the exchanged securities and, in turn, is entitled to all interest that will accrue at maturity, which would compensate for the interest it paid to banks on their Treasury bills during the swap operations. Finally, he noted that the financial swaps have helped preserve the stability of the exchange rate, and have strengthened the banking sector and its capacity to finance the economy. But he noted that these operations are not a substitute to addressing the fundamental problems facing the country, and called for the implementation of structural reforms to help revive the local economy. Governor Salamé's comments came in an interview with the daily newspaper *L'Orient-Le Jour*.

Balance of payments posts deficit of \$125m in first 10 months of 2016

Figures issued by the Central Bank show that Lebanon's balance of payments posted a deficit of \$125.3m in the first 10 months of 2016 compared to a deficit of \$2.17bn in the same period of 2015. The balance of payments posted a deficit of \$680.2m in October 2016 compared to a surplus of \$188.7m in September 2016 and a deficit of \$395.5m in October 2015. The October 2016 deficit was caused by a decrease of \$731.4m in the net foreign assets of banks and financial institutions, which was partly offset by an increase of \$51.2m in those of the Central Bank. The cumulative deficit over the first 10 months of 2016 was caused by a decrease of \$4.1bn in the net foreign assets of banks and financial institutions, which was partly offset by a rise of \$4bn in those of the Central Bank. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014 and \$3.4bn in 2015.



*in the first 10 months of each year

Source: Central Bank of Lebanon

Merrill Lynch maintains Lebanon's external debt at Marketweight

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 2.43% in the first 11 months of 2016, constituting the eighth lowest return among 43 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 15th lowest return among 74 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets' return of 7.09% during the covered period. Further, Lebanon's external debt posted the sixth lowest return among 26 countries in the Middle East & Africa region in the first 11 months of the year, ahead of only Qatar (+2.27%), Oman (+0.1%), Turkey (-0.87%), Saudi Arabia (-2.51%) and Mozambique (-13.77%).

In parallel, Merrill Lynch maintained its recommendation for Lebanon's external debt at "Marketweight" in its emerging markets portfolio of external debt. It attributed its decision to the fact that Lebanese Eurobonds have been stable due, in large part, to support from local banks. Also, it indicated that the Central Bank's gross foreign currency reserves have increased recently, and did not expect rating agencies to downgrade Lebanon's sovereign ratings.

Lebanon's external debt posted a return of -2.22% in November 2016, constituting the 18th highest return in the CEEMEA region and the 23rd highest in emerging markets during the covered month. Lebanon outperformed the emerging markets' return of -3.97% in November 2016.

Further, Lebanon's external debt posted the ninth highest return in the Middle East & Africa region in November 2016, ahead of Oman (-2.36%), Saudi Arabia (-2.51%), Zambia (-2.59%), Angola and Qatar (-2.63% each), Israel (-2.66%), Ghana and Jordan (-2.8% each), Kenya (-3.23%), Tunisia (-3.33%), South Africa (-3.39%), Gabon (-3.98%), Namibia (-4.18%), Morocco (-4.4%), Cameroon (-5.21%), Turkey (-5.29%), and the Ivory Coast (-5.48%). It underperformed Mozambique (+13.5%), Iraq (-0.78%), Bahrain (-1.24%), Egypt (-1.45%), Nigeria (-1.74%), Senegal (-1.94%), Rwanda (-2.04%) and the UAE (-2.08%).

In parallel, Merrill Lynch indicated that the option-adjusted spread on Lebanese Eurobonds was 520 basis points at the end of November 2016 compared to 478 basis points a year earlier, constituting the 10th widest spread in the CEEMEA region and the 17th widest among emerging markets. The spread on Lebanese Eurobonds was wider than the emerging markets' overall spread of 317 basis points at the end of November 2016. Lebanon has a weight of 2.66% on Merrill Lynch's External Debt EM Sovereign Index, the sixth largest weight in the CEEMEA universe and the 12th largest among emerging economies. Lebanon accounted for 5.1% of allocations in the CEEMEA region.

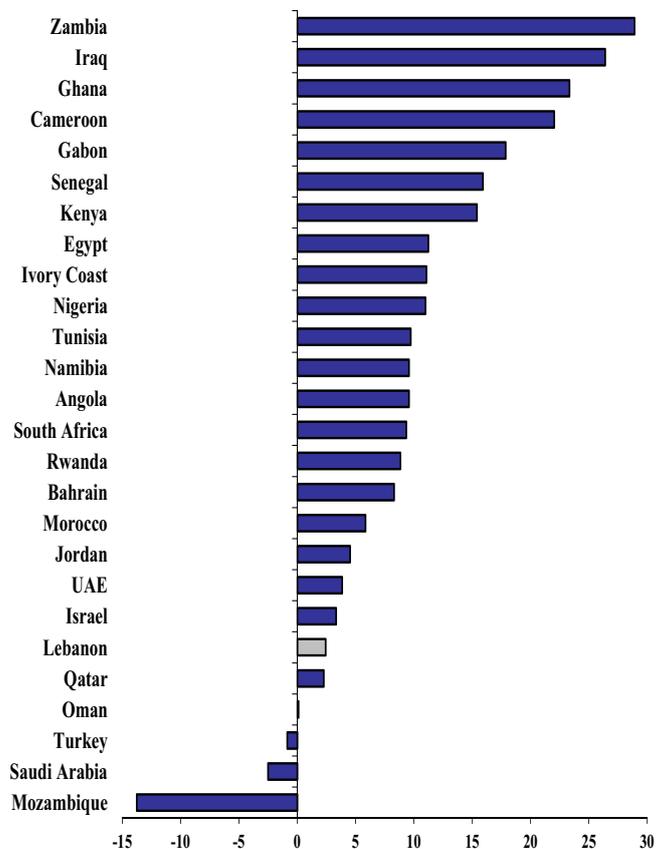
Inter-agency program to unify aid delivery for Syrian refugees through common card

The World Food Program (WFP), the United Nations Children's Fund (UNICEF), the UN Refugee Agency (UNHCR) and the Lebanon Cash Consortium (LCC) signed a Memorandum of Understanding to launch a card that simplifies the distribution of humanitarian assistance to Syrian refugees across Lebanon. The common card will allow aid-entitled refugees to access the various humanitarian programs in a more efficient and cost-effective way.

Aid-entitled refugees have had to use several methods of payment and to report to various points of aid distribution in order to receive assistance. The common card would give refugees access to food allowances, monthly cash transfers, school tuition and winter assistance through a single medium. Also, refugees will be able to purchase food at any of the 480 outlets contracted by the WFP, or to withdraw cash at any ATM across Lebanon using the same card.

In addition, the introduction of the common card would improve communication with over one million Syrian refugees across Lebanon. The WFP, UNICEF, UNHCR and LCC have started the joint distribution of the cards to refugees and will launch a common call center for those seeking information. The four aid agencies aim to reach 900,000 refugees by the end of the year.

External Debt Performance in the Middle East & Africa in First 11 Months of 2016 (%)



Source: Merrill Lynch, Byblos Research

Lebanon ranks fifth in Arab world in economic freedom

The Fraser Institute's 2016 annual Index of Economic Freedom in the Arab World ranked Lebanon in fifth place among 21 countries included in the survey. In comparison, Lebanon came in seventh place in each of the 2014 and 2015 surveys, in fourth place in the 2012 survey and in sixth place on each of the 2004 and 2007 indices.

The index measures the degree of economic freedom in each country based on 39 variables that are distributed into five broad factors of economic freedom. The factors measure the Size of Government, the Legal Structure & Security of Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. Economic freedom is measured on a scale from zero to 10 where a higher value indicates a greater degree of economic freedom.

Lebanon received a score of 7.7 points, compared to scores of 7.6 points in each of the 2014 and 2015 surveys. Lebanon's score fluctuated between 7.6 and 7.7 points since the 2004 survey. Lebanon's score was higher than the Arab average of 6.8 points and the average score of 6.5 points in non-GCC Arab countries, while it was similar to the average score of GCC economies. The Fraser Institute anticipated that the state of economic freedom in Lebanon would not change significantly in the 2017 survey.

Lebanon ranked second, behind only Sudan, on the Size of Government category, which measures the extent that a country relies on individual choice and markets, rather than on the political process, to allocate resources and goods & services. Also, Lebanon came in fourth place, along with Djibouti, and ranked ahead of Iraq, Oman, Qatar and the UAE, among others, on the Access to Sound Money category. This category measures the ease of using other currencies via domestic and foreign bank accounts.

Also, Lebanon tied with Yemen and Algeria in 10th place, and came behind the UAE, Oman, Saudi Arabia, Kuwait, Tunisia, Qatar, Morocco, Bahrain and Jordan on the Legal Structure & Security of Property Rights category. This category measures the government's effectiveness in protecting property rights.

Further, Lebanon came in 14th place, and ranked ahead of only Egypt, Libya, Iraq, Tunisia, Morocco, Sudan, Syria and Algeria on the Freedom to Trade Internationally category. The category measures the impact of tariffs, exchange rate distortions, and exchange rate and capital controls on international trade. Further, Lebanon came in second place, behind only Bahrain, in terms of the Regulation of Credit, Labor & Business. The category measures the restrictions that the regulatory burden imposes on the credit, labor and product markets.

The Fraser Institute is a Canada-based independent think tank whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals.

Index of Arab Economic Freedom for 2016		
	Score	Rank
UAE	8.2	1
Jordan	8.1	2
Bahrain	8.0	3
Kuwait	7.8	4
Lebanon	7.7	5
Oman	7.7	5
Qatar	7.6	7
Palestine	7.3	8
Yemen	7.2	9
Saudi Arabia	7.0	10
Tunisia	6.8	11
Egypt	6.6	12
Morocco	6.6	12
Djibouti	6.5	14
Comoros	6.3	15
Sudan	6.1	16
Mauritania	5.9	17
Iraq	5.8	18
Libya	5.6	19
Algeria	5.5	20
Syria	5.4	21

Source: Fraser Institute, Byblos Research

Lebanon's Rankings & Scores by Category		
Category	Rank	Score
Size of Government	2	8.4
Access to Sound Money	4	9.4
Regulation of Credit, Labor & Business	2	8.2
Freedom to Trade Internationally	14	6.5
Legal Structure & Security of Property Rights	10	5.9

Source: Fraser Institute, Byblos Research

Improved political climate to support deposit and lending growth in 2017

Regional investment bank EFG Hermes considered that the election of a new President in Lebanon, after a vacuum of more than two years, is a positive development towards resolving the political deadlock in the country, which should help improve overall confidence and lead to higher lending and deposit growth. It noted that lending growth in the Lebanese banking sector has decelerated since 2011, as confidence has been negatively affected by the domestic political deadlock and by spillovers from the Syrian conflict. It added that weak sentiment in Lebanon, along with slower economic activity in the countries of the Gulf Cooperation Council, which are the main drivers of non-resident deposits, have led to a slowdown in overall deposit growth at Lebanese banks. It anticipated a slight pick-up in deposits and lending growth in 2017, despite the upcoming challenges on Lebanon's political scene that include the potential political maneuvering related to the approval of a new parliamentary electoral law and holding parliamentary elections by the constitutional deadline.

In parallel, EFG Hermes indicated that the recent financial engineering operations by Banque du Liban (BdL) have accelerated the growth in non-resident deposits over the past few months. It noted that the BdL conducted these operations in order to increase its net foreign assets. It pointed out that Lebanese banks' profits have improved in the third quarter of 2016 due to one-off gains that resulted from the BdL's operations. However, it said that banks booked only a part of these gains as profits, as the BdL asked them to use a part of the revenues as provisions ahead of the implementation of international accounting standard IFRS 9 in January 2018, among other measures. As a result, it expected the banks' net profits to decelerate in 2017 after the one-off revenues they generated in 2016.

In parallel, EFG Hermes expected the liberalization of the exchange rate in Egypt to improve the earnings of the Egyptian affiliates and subsidiaries of Lebanese banks in 2017. It considered that the banks' fee income, interest spreads and loan growth would benefit from improved US dollar liquidity and higher short-term interest rates in Egypt. However, it noted that the balance sheet growth of the banks will be negatively impacted in the fourth quarter of 2016 by the weakening of the Egyptian pound against the US dollar.

Trade deficit widens by 9% to \$13bn in first 10 months of 2016

The total value of imports reached \$15.7bn in the first 10 months of 2016, constituting an increase of 7% from the same period of 2015; while the aggregate value of exports was nearly unchanged at \$2.5bn in the covered period. As such, the trade deficit widened by 8.5% year-on-year to \$13.2bn in the first 10 months of 2016 due to an increase of \$1bn in imports. The rise in imports mainly reflects an increase of \$813m, or 32.4%, in the value of imported oil & mineral fuels to \$3.3bn in the first 10 months of 2016. The value of oil & mineral fuels accounted for 21.1% of total imports in the covered period compared to a share of 17.1% in the first 10 months of 2015. The coverage ratio was 15.8% in the first 10 months of 2016 compared to 17% in the same period of 2015, while it reached 17.4% in October 2016 relative to 17.8% in the same month of 2015.

In volume terms, imports reached 14.9 million tons in the first 10 months of 2016 compared to 12.7 million tons in the same period of 2015, while exports regressed by 19.8% annually to 1.34 million tons in the covered period. Imports of oil & mineral fuels increased by 32.7% year-on-year to 7.7 million tons, while non-hydrocarbon imports grew by 5.1% annually to 7.2 million tons. Also, imported oil & mineral fuels accounted for 51.7% of total imports in the covered period relative to a 45.9% share in the first 10 months of 2015. The increase in the imports of oil & mineral fuels is mainly due to the discrepancy in the data reported by Electricité du Liban, as EdL's imports' schedule varies from year to year.

China was the main source of imports with \$1.8bn, or 11.3% of the total, in the first 10 months of 2016, followed by Italy with \$1.16bn (7.4%), the United States with \$1bn (6.4%), Germany with \$965m (6.1%), Greece with \$853.2m (5.4%) and Russia with \$645.2m (4.1%). Imports from Greece rose by 31.3%, those from the United States grew by 19.7%, imports from Italy increased by 6.9% and those from China expanded by 0.2%; while imports from Russia fell by 11.8% and those from Germany declined by 2.9% year-on-year. In parallel, the Port of Beirut was the entry point for 73% of Lebanon's imports in the first 10 months of 2016, followed by the Hariri International Airport (19.5%), the Port of Tripoli (5.3%), the Port of Saida (1.4%), the Masnaa crossing point (0.3%), the Arida crossing point (0.2%) and the Abboudieh and Tyre crossing points (0.1% each).

Further, South Africa was the main export destination of Lebanese merchandise with \$574.5m, or 23.1% of total exports, followed by Saudi Arabia with \$226.4m (9.1%), the UAE with \$201.6m (8.1%), Syria with \$146.2m (5.9%), Iraq with \$137.2m (5.5%) and Jordan with \$83.6m (3.4%). Exports to South Africa grew by 3.4 times year-on-year in the first 10 months of 2016, while those to Iraq contracted by 27%, exports to Saudi Arabia dropped by 25%, those to the UAE regressed by 23.6%, exports to Syria fell by 17.6% and those to Jordan decreased by 10.8%.

Lebanon's main exports were jewelry with \$725.3m, which accounted for 29.2% of the total. They were followed by prepared foodstuff at \$365.4m (14.7%), machinery & mechanical appliances at \$272.1m (11%), chemical products at \$256.9m (10.3%), base metals at \$198.2m (8%), vegetable products at \$150.4m (6.1%) and plastics & rubber at \$111.8m (4.5%). In parallel, the Port of Beirut was the exit point for 46.8% of Lebanon's total exports in the first 10 months of the year, followed by the Hariri International Airport (40%), the Port of Tripoli (7.1%), the Masnaa crossing point (3%), the Arida crossing point (1.9%), the Abboudieh crossing point (0.8%) and the Port of Saida (0.5%). Re-exports totaled \$423.7m in the first 10 months of 2016 compared to \$410m in the same period of 2015.



Gross public debt at \$74.5bn at end-October 2016

Lebanon's gross public debt reached \$74.5bn at the end of October 2016, constituting an increase of 5.9% from \$70.3bn at end-2015 and a rise of 7.9% from \$69bn at the end of October 2015. In nominal terms, the gross public debt grew by \$4.4bn in the first 10 months of 2016 relative to an increase of \$2.5bn in the same period of 2015. Debt denominated in Lebanese pounds totaled \$45.5bn at end-October 2016, growing by 5.2% from the end of 2015 and by 6% from end-October 2015; while debt denominated in foreign currency stood at \$29bn, constituting a rise of 7.1% from end-2015 and an increase of 11.1% from a year earlier. Local currency debt accounted for 61.1% of the gross public debt at the end of October 2016 compared to 61.5% a year earlier, while foreign currency denominated debt represented the balance of 38.9% relative to 38.5% at end-October 2015. The weighted interest rate on outstanding Treasury bills was 6.95% and that on Eurobonds was 6.42% in October 2016. Further, the weighted life on Eurobonds was 6.20 years, while that on Treasury bills was 1,283 days.

The Central Bank held 44.1% of the Lebanese pound-denominated public debt at the end of October 2016, up from 36.1% a year earlier, followed by commercial banks with 40.2% of the local debt, down from 47.1% at end-October 2015. Also, public agencies, financial institutions and the public held 15.8% of local debt at end-October 2016, down from 16.8% a year earlier. In parallel, Eurobond holders and special T-bills in foreign currencies accounted for 92.9% of foreign-currency denominated debt at the end of October 2016, followed by multilateral institutions with 3.6%, foreign governments with 3.3% and Paris II loans with 0.1%. Commercial banks held about 46.6% of the total public debt as at end-October 2016 relative to 53.8% of the total at the end of 2015. Also, the gross market debt accounted for about 64% of total the public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

In parallel, Fitch Ratings rates Lebanon's long- and short-term foreign currency sovereign credit ratings at 'B-'. But the Market-Based Credit Default Swap Implied Ratings, an indicator of risk appetite by foreign investors, show that Lebanon's sovereign debt is considered by the market to have a 'B' risk level, which is one notch higher than the S&P rating as at December 8, 2016.

Treasury transfers to Electricité du Liban down 40% to \$439m in first seven months of 2016

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$438.8m in the first seven months of 2016, constituting a drop of 40.4% from \$736.7m in the same period of 2015. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled \$429.4m, or 97.9% of transfers, in the first seven months of the year, while EdL's debt servicing represented the balance of \$9.4m, or 2.1% of the total. It attributed the decline in transfers to a decrease of \$295.7m, or 40.8%, in payments to KPC and Sonatrach in the covered period, as well as to a drop of \$2.2m, or 19.1%, in debt servicing.

The ministry said that the decline in payments to KPC and Sonatrach reflects a 29.5% year-on-year decrease in oil prices at the time the oil contracts were executed, as well as an 8.6% decline in the quantity of imported gas and a 5.3% drop in the quantity of imported fuel oil. Also, it pointed out that EdL contributed 7.3% of the repayments to the two oil suppliers in the first seven months of 2016, up from 2.2% in the same period last year. EdL transfers accounted for 7.8% of primary expenditures in the first seven months of 2016, compared to 14.2% in the same period of 2015. They constituted the third largest expenditures item after debt servicing and public sector salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.1% of GDP in 2014 and 2.7% of GDP in 2015.

Losses of Syrian affiliates of Lebanese banks at \$4m in first nine months of 2016 when excluding foreign exchange gains on structural positions

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate unaudited net profits reached SYP53.4bn in the first nine months of 2016, constituting a rise of 46% from SYP36.6bn in the same period of 2015. The increase in profits was mainly due to SYP55bn in unrealized foreign exchange gains on structural positions in the first nine months of 2016 compared to SYP35.3bn in the same period last year. In US dollar terms, the net profits of the seven banks decreased by 27.5% from \$164.6m in the first nine months of 2015 to \$119.3m in the same period of 2016. The US dollar figures reflect the prevailing official exchange rates that depreciated from an average of SYP222.2 per US dollar in the first nine months of 2015 to an average of SYP447.5 per US dollar in the first nine months of 2016. The aggregate net income of the seven banks becomes a loss of SYP1.6bn, or \$3.55m, in the first nine months of 2016 when excluding foreign exchange gains on structural positions, compared to gains of SYP1.3bn, or \$5.9m, in the first nine months of 2015. The profits of Bank Audi Syria improved by SYP4.5bn, followed by an increase of SYP3.8bn in those of Fransabank Syria, a rise of SYP3.2bn in the income of Banque BEMO Saudi Fransi, a growth of SYP2.7bn in the profits of Bank of Syria & Overseas, an improvement of SYP1.7bn in those of Bank Al-Sharq, the affiliate of Banque Libano-Française sal, and an increase of SYP1.05bn in the profits of Byblos Bank Syria. In contrast, the earnings of Syria Gulf Bank, the affiliate of First National Bank sal, dropped by SYP434.3m from the first nine months of 2015.

The net interest income of the seven banks totaled SYP9.04bn in the first nine months of 2016, up 32.6% from SYP6.8bn in the same period last year; while their net fees & commission income increased by 9.3% to SYP3.6bn. In US dollar terms, the banks' net interest income totaled \$20.2m in the first nine months of the year, down 34.2% from \$30.7m in the first nine months of 2015; while their net fees & commission income stood at \$8.1m, reflecting a drop of 45.7% from \$14.9m in the same period last year. The seven banks' total operating income reached SYP69.9bn in the first nine months of 2016, reflecting a 49.4% increase year-on-year, while total operating expenses reached SYP14.9bn in the first nine months of the year, up by 2.37 times from the same period last year. In US dollar terms, the banks' operating income totaled \$156.2m in the first nine months of the year relative to \$210.6m in the same period of 2015; while their operating expenses stood at \$33.3m, up 17.5% from \$28.3m in the first nine months of 2015. The banks' operating income becomes SYP14.9bn in the first nine months of 2016 when excluding foreign exchange gains on structural positions, relative to SYP11.5bn in the same period last year.

In parallel, the banks' aggregate assets reached SYP820.4bn at the end of September 2016 and increased by 27.7% from SYP642.5bn at end-2015. In US dollar terms, the assets of the seven banks dropped by 19.8% from \$2.05bn at the end of 2015 to \$1.65bn at the end of September 2016. This significant decrease in US dollars is explained by the substantial devaluation of the Syrian pound. Also, the banks' total loans reached SYP95bn at end-September 2016, reflecting a drop of 4% from SYP98.9bn at the end of 2015. In US dollar terms, the aggregate loans of the seven banks reached \$190.5m at the end of September 2016 and regressed by 39.7% from \$316m at the end-2015.

Further, the banks' customer deposits totaled SYP480bn at the end of September 2016 and grew by 23.2% from SYP389.8bn at the end of 2015. In US dollar terms, customer deposits at the seven banks reached \$962.8m at the end of September 2016, constituting a drop of 22.7% from \$1.25bn at the end of 2015. The ratio of the banks' loans-to-customer deposits stood at 19.8% at the end of September 2016 compared to 25.4% at end-2015. Also, the aggregate shareholders' equity of the banks reached SYP142bn, or \$284.8m, at the end of September 2016, constituting an increase of 60.7% from SYP88.4bn at end-2015.

Results of Affiliates of Lebanese Banks in Syria in First Nine Months of 2016 (in US\$)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Syria	Bank Audi Syria	Byblos Bank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	\$21.6m	\$17.5m	\$25.4m	\$25.9m	\$14.4m	\$3.1m	\$11.5m
Total Assets	\$457m	\$394.8m	\$239m	\$225.6m	\$151.3m	\$108.8m	\$68.9m
% Change*	32.5%	37.5%	33.3%	37.4%	2.4%	13.9%	-1.6%
Loans	\$64.7m	\$9.1m	\$33m	\$23.6m	\$24.4m	\$19.8m	\$15.8m
% Change*	21.3%	-22.5%	2.8%	-12.4%	-26.5%	-7.3%	-19.4%
Customer Deposits	\$372m	\$224.2 m	\$88.5m	\$103.3m	\$72.2m	\$71.9m	\$30.8m
% Change*	34.1%	32.8%	34%	14.7%	15.5%	-0.1%	-31.9%

*Change from end-2015

Source: Banks' financial statements

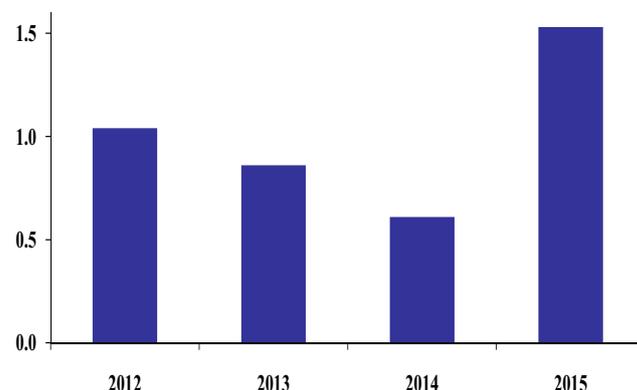
Profits of small banks up 153% to \$22m in 2015, profitability metrics increase

The consolidated net profits of the Gamma Group of banks totaled \$22.1m in 2015, constituting an increase of 152.5% from net earnings of \$8.8m in 2014. The Gamma Group consists of banks with deposits between \$200m and \$500m each. The significant increase in net earnings is mainly due to gains from the sale and/or disposal of \$16.6m in assets. The banks' aggregate net operating income regressed by 4% to \$42.1m in 2015, with net interest income decreasing by 0.9% to \$35.6m and net fees & commissions receipts declining by 8.2% to \$5.8m year-on-year. Non-interest income accounted for 43.1% of total income in 2015, up from 22.12% in the preceding year. The banks' interest spread slightly narrowed from 2.49% in 2014 to 2.47% in 2015. The banks' total operating expenditures rose by 5.5% to \$35.6m in 2015, with staff expenses increasing by 3.1% to \$20.7m and administrative & other operating expenditures growing by 9.5% to \$13m. Further, the cost-to-income ratio dropped to 56.9% in 2015 from 73.2% in 2014. The banks' return on average assets increased from 0.61% in 2014 to 1.53% in 2015; while their return on average equity rose from 4.97% in 2014 to 11.63% in 2015.

The Gamma banks' total assets reached \$1.4bn at the end of 2015, constituting a decrease of 1.6% from end-2014. Loans accounted for 35% of total assets at end-2015, followed by liquid assets with 33%, portfolio securities with 28%, and fixed and other assets with 2% each. Further, total loans & advances to customers grew by 4.7% from end-2014 to \$497.3m, while credit extended to related parties decreased by 6.6% to \$1.2m at end-2015. Corporate loans accounted for 40.5% of total net lending to customers at the end of 2015 compared to 46.5% a year earlier. They were followed by lending to small- and medium-sized enterprises with 30.5% of the total relative to 21.8% at end-2014, retail loans with 7% of the total relative to 8.2% a year earlier and mortgages with 6.4% relative to 7.1% and end-2014. Also, customer deposits reached \$1.05bn at the end of 2015 and regressed by 0.6% from a year earlier; while deposits from related parties increased by 17.8% to \$49.2m at end-2015.

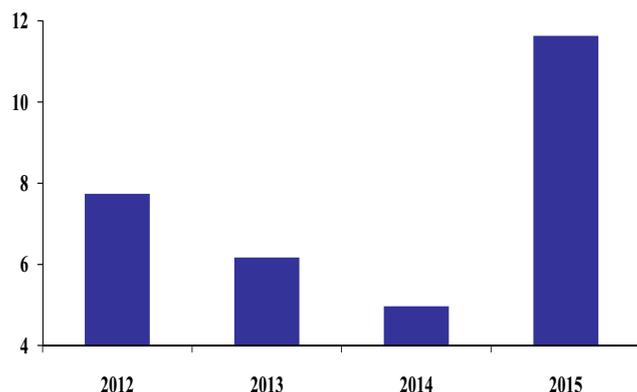
In parallel, the banks' loans-to-deposits ratio increased to 45.2% at end-2015 from 43.2% a year earlier. The loans-to-deposits ratio in local currency was 43.51% at end-2015 compared to 35.58% at end-2014, while the same ratio in foreign currency was 46.18% at the end of 2015 relative to 47.54% a year earlier. Further, the primary liquidity-to-assets ratio decreased from 34.05% at the end of 2014 to 33.44% at end-2015. The banks' net doubtful loans plus substandard loans were equivalent to 3.19% of gross loans at end-2015 relative to 2.05% a year earlier; while their net doubtful loans over equity stood at 3.28% at the end of 2015, up from a ratio of 3.17% at end-2014. Also loan-loss reserves on doubtful loans were 74.81% of gross doubtful loans at the end of 2015 compared to a ratio of 74.89% at end-2014. The banks' capital adequacy ratio stood at 22.32% at the end of 2015, up from 20.95% at end-2014, according to Basel II criteria.

Return on Average Assets (%)



Source: Bankdata

Return on Average Equity (%)



Source: Bankdata

Launch of center to support Saudi investments in Lebanon

The Ministry of Economy & Trade, in collaboration with the Saudi-Lebanese Business Council, inaugurated the Saudi-Lebanese Business Center that aims to provide legal and technical support to Saudi investors who seek to invest in Lebanon. The center, located at the Embassy of the Kingdom of Saudi Arabia in Lebanon, provides analysis on the impact of economic and political developments on different economic sectors in Lebanon, and offers information about investment opportunities in these sectors. The Saudi-Lebanese Business Council aims to stimulate economic relations between Lebanon and Saudi Arabia through trade and investment.

Lebanon attracted \$1.84bn in Greenfield foreign direct investment from Saudi Arabia between January 2003 and April 2016, which is equivalent to 10.1% of total Saudi Greenfield FDI in the Arab region and to 16.1% of aggregate Arab Greenfield FDI in Lebanon over the same period.

Launch of initiative to assist Lebanese businesses penetrate new markets

The Lebanese Businessmen Association (RDCL) launched RDCL World, a global network that connects Lebanon-based businessmen and companies, with their counterparts in the Lebanese Diaspora around the world. RDCL World is an independent legal entity that allows Lebanese entrepreneurs and businesses, in Lebanon and abroad, to strengthen their presence in the countries where they currently operate and help each other penetrate new markets. The initiative aims to enable partnerships between members, mainly by facilitating the flow of investment within the network. The newly-launched entity indicated that it intends to establish a presence through representative offices in countries where the Lebanese Diaspora has a significant presence, and where Lebanese entrepreneurs and businesses are seeking or can benefit from new opportunities. RDCL World is a non-profit organization and is registered with the Ministry of the Interior & Municipalities. Founded in 1986, RDCL is a business association that consists of Lebanese businesspersons from different economic sectors in Lebanon, with a common aim to promote a free economy in Lebanon.

Creditbank's net income at \$33m in first nine months of 2016

Creditbank sal, one of Lebanon's top 14 banks in terms of assets, announced unaudited consolidated net profits of \$32.9m in the first nine months of 2016, constituting an increase of 16% from \$28.3m in the same period last year. Net operating income grew by 45.8% year-on-year to \$107.8m in the first nine months of the year, with net interest income rising by 6.3% to \$54m and net fees & commissions receipts decreasing by 1.3% year-on-year to \$11.7m. Non-interest income accounted for 52.61% of total income in the first nine months of 2016, compared to 35.65% a year earlier; with net fees & commissions representing 19.54% of non-interest earnings relative to 42.15% in the first nine months of 2015. Further, the bank's interest margin was 2.14% in the first nine months of 2016 relative to 2.28% in the same period last year; while its spread reached 2.04%, compared to 2.17% in the first nine months of 2015. Total operating expenditures increased by 63.4% to \$68.2m in the first nine months of 2016, with administrative and other operating expenses rising 2.6 times to \$39.4m and staff expenses growing by 7.6% to \$26.3m. Also, the bank's return on average assets was 1.25% in September 2016 on an annualized basis relative to 1.21% in September 2015; while its return on average equity was 14.94% down from 16.11% in September 2015. The cost-to-income ratio increased to 59.9% in the first nine months of the year from 52.9% in the same period of 2015.

In parallel, the bank's total assets reached \$3.7bn at the end of September 2016, constituting an increase of 11.8% from end-2015. Loans & advances to customers, excluding those to related parties, grew by 14.6% from end-2015 to \$1.9bn. Also, customer deposits, excluding those from related parties, totaled \$3bn at the end of September 2016 and increased by 8% from end-2015. The loans-to-deposits ratio stood at 63.2% relative to 59.6% at end-2015. In parallel, the bank's shareholders' equity rose by 10% from the end of 2015 to \$307.2m at end-September 2016.



Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP (\$bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	217
Public Debt in Local Currency / GDP	81.9	84.6	89.6	645
Gross Public Debt / GDP	133.1	137.6	143.8	862
Total Gross External Debt / GDP**	170.0	174.7	176.6	190
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	47
Exports / Imports	16.2	16.6	16.1	(49)
Fiscal Revenues / GDP	21.8	18.7	19.6	118
Fiscal Expenditures / GDP	27.9	26.5	28.2	218
Fiscal Balance / GDP	(6.1)	(7.7)	(8.6)	99
Primary Balance / GDP	2.6	1.4	1.4	1
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	394
M3 / GDP	235.4	241.9	250.0	1230
Commercial Banks Assets / GDP	351.4	364.0	392.5	3483
Private Sector Deposits / GDP	288.9	296.6	307.7	1618
Private Sector Loans / GDP	101.8	106.1	109.2	495
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(123)

* Change in basis points 15/16

**Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	52.0	54.5	54.5	▼	High
Financial Risk Rating	38.0	39.0	39.0	▼	Low
Economic Risk Rating	27.0	33.0	33.0	▼	Moderate
Composite Risk Rating	58.5	63.25	63.25	▼	Moderate

MENA Average*	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	57.1	57.6	57.7	▼	High
Financial Risk Rating	40.6	39.2	39.3	▲	Low
Economic Risk Rating	35.6	31.3	31.2	▲	Moderate
Composite Risk Rating	66.6	64.0	64.1	▲	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative



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